

Message Text

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ACTION ARA-10

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 4032

INFO AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: EFIN BR

SUBJECT: CRUZEIRO DEVALUED; INFLATION ACCELERATES IN
JANUARY WHILE MONETARY BUDGET FORESEES TIGHTER
MONETARY POLICY

REF: BRASILIA 556

1. SUMMARY: THE CRUZEIRO WAS DEVALUED FOR THE
SECOND TIME THIS YEAR. INFLATION ACCELERATES IN
JANUARY WHILE THE MONETARY BUDGET FORESEES A TIGHTER
MONETARY POLICY IN 1976. END SUMMARY.

2. FOR THE SECOND TIME THIS YEAR, THE CRUZEIRO WAS
DEVALUED, BY 1.9 PERCENT, EFFECTIVE FEBRUARY 17, 1976.
COMING 27 DAYS AFTER THE LAST ADJUSTMENT, THIS CHANGE
BROUGHT THE CUMULATIVE INCREASE IN THE PRICE OF THE US
DOLLAR SO FAR THIS YEAR TO 3.88 PERCENT. THE NEW
CRUZEIRO/US DOLLAR RATES ARE 9.37 FOR BUY AND 9.42
FOR SELL.

3. ON THE SAME DAY THE CRUZEIRO WAS DEVALUED,
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THE GETULIO BARGAS FOUNDATION RELEASED INFLATION

FIGURES FOR JANUARY, WHICH CONFIRMED EXPECTATIONS OF AN ACCELERATION IN THE INFLATION RATE AT THE START OF THE YEAR. IN FACT, THE JANUARY INCREASE FOR BOTH THE RIO DE JANEIRO COST-OF-LIVING INDEX AND THE GENERAL PRICE INDEX (DISPONIBILIDADE INTERNA) WERE THE HIGHEST REGISTERED DURING THE LAST 12-MONTH PERIOD. THE RIO INDEX WAS UP 4.1 PERCENT AND GENERAL INDEX 3.1 PERCENT OVER DECEMBER. THESE SAME INDEXES REGISTERED INCREASES OF 32.8 PERCENT AND 30.4 PERCENT, RESPECTIVELY, DURING THE JANUARY 75 - JANUARY 76 PERIOD. THE JANUARY JUMP IN PRICES WAS LED BY INCREASES IN THE PRICES OF "PERSONAL SERVICES" (CIGARETTES IS CITED AS A MAJOR FACTOR) AND FOOD ITEMS.

4. THE NATIONAL MONETARY COUNCIL, WHICH SETS GUIDELINES FOR MONETARY POLICY IN BRAZIL, APPROVED ON FEBRUARY 16 THE MONETARY BUDGET FOR 1976. ALTHOUGH THE BUDGET IS NOT PUBLISHED AND IS SUBJECT TO REVISION DURING COURSE OF YEAR, DETAILS MADE AVAILABLE BY THE FINANCE MINISTRY INDICATE THAT THE MONEY SUPPLY (NARROWLY DEFINED) IS EXPECTED TO RISE BY 25 PERCENT FROM DECEMBER 1975 TO DECEMBER 1976; BANK CREDIT TO THE PRIVATE SECTOR IS PROJECTED TO INCREASE BY 41.4 PERCENT, WHILE CREDIT TO THE RURAL SECTOR AND TO OTHER SECTORS OF THE ECONOMY IS EXPECTED TO GO UP BY 45.1 PERCENT AND 39.2 PERCENT, RESPECTIVELY. NO INFORMATION WAS RELEASED WITH RESPECT TO THE BALANCE OF PAYMENTS, EXCEPT A GENERAL STATEMENT TO THE EFFECT THAT THE OUTLOOK FOR THE TRADE BALANCE WAS CONSIDERED "MUCH MORE FAVORABLE" THEN LAST YEAR.

5. COMMENT: THE HIGH INFLATION RATE FOR JANUARY HAD BEEN PREDICATED BY FINANCE MINISTER SIMONSEN AND OTHER OFFICIAL SPOKESMEN, AS A RESULT OF BOTH SEASONAL FACTORS AND SIZEABLE INCREASES FOR CIGARETTES, AND FOOD ITEMS. DESPITE THE ADVERSE JANUARY RESULTS, HOWEVER, OFFICIALS PROJECT AN INFLATION RATE DURING 1976 BELOW LAST YEAR'S LEVEL OF 29.4 PERCENT (SEE RIO UNCLASSIFIED

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503). TO ACHIEVE THIS OBJECTIVE, THE MONETARY AUTHORITIES ARE PLANNING A TIGHTER MONETARY POLICY. THIS WAS CONFIRMED BY THE PROJECTED 25 PERCENT INCREASE IN THE MONEY SUPPLY IN THE MONETARY BUDGET WHICH IS WELL BELOW THE 42.3 PERCENT REGISTERED IN 1975. WITH RESPECT TO THE CRUZEIRO DEVALUATION, THE AUTHORITIES CONTINUE TO REJECT SUGGESTIONS FOR A LARGE ONE-TIME DEVALUATION OR A SPEEDING UP OF THE RATE OF

MINI-DEVALUATIONS AS A WAY TO HELP REDUCE THE TRADE DEFICIT, INDICATING THAT THEY PLAN TO FOLLOW WITH THEIR PRESENT SYSTEM OF MINI-DEVALUATIONS.

CRIMMINS

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